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TAGS: NATO, ECON, ETRD, CH

SUBJECT: ECONADS: REPORT ON ECONOMIC SITUATION IN THE PRC

1. WE ARE IN GENERAL ACCORD WITH THE DRAFT REPORT, BUT
WISH TO OFFER FOLLOWING SUGGESTED REVISIONS AND COMMENTS.

2. THE MAIN FEATURES LISTED COULD BE AMPLIFIED AND RE-
ARRANGED TO SUGGEST A LIKELY CHINESE ECONOMIC PLANNING
LOGIC, AS FOLLOWS:

--A STRIKING RISE IN THE FOREIGN TRADE, WITH ASSOCIATED
COMMITMENTS SUGGESTING IT WILL BE SUSTAINED AT LEAST
THROUGH THE 1970'S AND BE AIMED AT:

--FINDING SHORT AND LONG RUN SOLUTIONS TO A PRECARIOUS
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FOOD BALANCE, AND

--EXPANDING THE FUEL AND RAW MATERIAL BASE AND BUILDING A
TRANSPORT AND MARKETING INFRASTRUCTURE, DESIGNED TO
FACILITATE INDUSTRIAL GROWTH IN THE 1980'S.

WITH THIS INTRODUCTION, THE SUCCEEDING PARAGRAPHS COULD THEN BE GROUPED IN APPROPRIATE SUB-SECTIONS WHICH MIGHT BE LABELED: A. FOREIGN TRADE EXPANSION (PARAS. 3,6,7,) B. REDRESSING THE FOOD BALANCE (PARA. 5) C.PROVIDING FOR INDUSTRIAL GROWTH (PARA 4), AND D. PROBLEMS OF IMPLEMENTATION (PARA. 8)

3. SUBSECTION A. (PARAS.3,6,7) IN PARA 6, THIRD SENTENCE CHANGE DOLLARS 1.5 MILLION "TO" ABOUT DOLLARS 3 BILLION (VALUING GOLD RESERVES AT MARKET RATHER THAN OFFICIAL PRICES AND INCLUDING A ROUGH EST. OF DOMESTIC GOLD PRODUCTION),..."

SUBSTITUTE FOR FOURTH, FIFTH, AND SIXTH SENTENCES: "THE CREDITS TAKEN UP BY CHINA ARE SHORT-TERM FOR AGRICULTURAL PRODUCTS AND MEDIUM-TERM (5 YEARS) FOR INDUSTRIAL PLANT PURCHASES. THE RATE OF INTEREST FOR MEDIUM-TERM CREDITS IN GENERAL IS 6 PERCENT. CHINA'S OUTSTANDING DEBT TO NON-COMMUNIST COUNTRIES IS ESTIMATED AT 725 MILLION AT THE END OF 1973. REPAYMENTS WILL GROW IN THE NEXT FEW YEARS, BUT SHOULD NOT CREATE INSUPERABLE PROBLEMS FOR THE PRC BALANCE OF PAYMENTS." IN PARA. 7, FIRST SENTENCE, ADD THE FOLLOWING PHRASE: "...AGRICULTURAL PRODUCTS, THOUGH INCREASED EXPORTS OF LIGHT INDUSTRIAL GOODS HOLD SOME PROMISE." SUBSTITUTE FOR LAST SENTENCE: "IT IS NOT TO BE EXCLUDED THAT, IN VIEW OF EFFORTS CURRENTLY BEING MADE IN PROSPECTING FOR OIL AND IN PRODUCTION, OUTPUT COULD EXPAND BY 15 TO 20 PERCENT ANNUALLY, REACHING 150 TO 200 MILLION TONS PER YEAR BY THE END OF THE DECADE. SUCH OUTPUT LEVELS WOULD BE CONSISTENT WITH CHINESE ASSURANCES TO JAPANESE BUSINESSMEN OF A 50 MILLION TON EXPORT AVAILABILITY IN THAT TIME FRAME WHICH, IF REALIZED, WOULD OPEN VAST OPPORTUNITIES FOR CHINA'S EXPORTS."

4. SUBSECTION B. REDRESSING THE FOOD BALANCE (SUBSTITUTE FOR PARA. 5) THE SUBSTANTIAL ORIENTATION OF CHINA'S RECENT IMPORT PURCHASES IN SUPPORT OF AGRICULTURE ATTESTS TO A DETERIORATING FOOD BALANCE, CORROBORATING THE TRENDS
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SHOWN IN PEKING'S OWN GRAIN OUTPUT FIGURES (SEE ANNEX). THE AVERAGE ANNUAL GROWTH IN GRAIN OUTPUT DURING 1957-73 REACHED 1.9, BUT IN THE PAST SIX YEARS, 1967-73, THIS RATE DROPPED TO 1.4 AND SIGNIFICANTLY LAGGED POPULATION GROWTH. PRESUMABLY GRAIN STOCKS HAVE BEEN ERODED, AND GRAIN IMPORTS, WHICH AVERAGED 4.1 MILLION TONS DURING 1967-72, ROSE TO A RECORD 7.65 MILLION TONS IN 1973, WITH THE PROSPECT OF A NEW RECORD IN 1974 OF 9 MILLION TONS UNDER CURRENT CONTRACTS. IN 1973 PEKING NEGOTIATED THREE YEAR SUPPLY CONTRACTS WITH THREE MAJOR GRAIN EXPORTING COUNTRIES, ASSURING LARGE GRAIN SUPPLIES THROUGH 1976. THE PATTERNS OF AGRICULTURE HAVE ALTERED SINCE 1957 UNDER THE INCREASING DEMAND FOR GRAIN. ACREAGES

OF THE MAJOR NON-GRAIN CROPS--COTTON, OILSEEDS, AND SOYBEANS--HAVE DECLINED, REFLECTED IN SHORTAGES OF TEXTILES AND OILS IN DOMESTIC CONSUMPTION AND, MORE RECENTLY, MAJOR IMPORTS OF COTTON, SOYBEANS, AND OILS. THERE HAVE, HOWEVER, BEEN INCREASES IN THE MINOR ACREAGES OF SPECIALTY CROPS, SUCH AS FRUITS, VEGETABLES, SUGAR, TOBACCO, TEA, AND SILK. CHINESE DATA SUGGEST A RELATIVE DECLINE IN LARGE ANIMALS, AS HUMAN AND MECHANICAL POWER HAVE SUPPLANTED DRAUGHT ANIMALS, WHILE THE FEED SUPPLIES

RELEASED HAVE SUPPORTED A RELATIVE INCREASE IN HOG PRODUCTION.

THE RECENT IMPORT PURCHASE OF 13 HUGE UREA PLANTS AND OF MANY PETROCHEMICAL ARTIFICIAL FIBER PLANTS INDICATE A REDOUBLED LONG-TERM INVESTMENT EFFORT TO EXPAND FARM OUTPUT AND TO MEET FIBER NEEDS FROM NON-FARM SOURCES. THE IMPORTED UREA PLANTS SHOULD ENABLE PEKING TO MEET ITS 1980 TARGET OUTPUT OF 65 MILLION TONS "STANDARD" FERTILIZER (ABOUT 13 MILLION TONS FERTILIZER NUTRIENTS). WITH SUPPLEMENTAL IMPORTS OF POTASSIC--AND PERHAPS SOME PHOSPHATE--FERTILIZERS, THE 1980 FERTILIZER NUTRIENT SUPPLY SHOULD REACH SOME 16-17 MILLION TONS, UP ABOUT 10 MILLION TONS FROM 1973'S SUPPLY OF 6.4 MILLION TONS. ASSUMING 80 PERCENT APPLICATION TO GRAIN CROPS AND A MARGINAL GRAIN-TO-FERTILIZER OUTPUT RESPONSE OF 8 TO 1 (WHICH COULD ONLY BE ACHIEVED IF THE FERTILIZER IS ACCOMPANIED BY OPTIMUM QUANTITIES OF ALL OTHER ESSENTIAL INPUTS), CHINA'S GRAIN

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OUTPUT COULD EXPAND BY 64 MILLION TONS TO 314 MILLION TONS BY 1980 OR A FEW YEARS THEREAFTER. THIS LEVEL OF OUTPUT WOULD REPRESENT A 2.5-3.5 PERCENT AVERAGE ANNUAL INCREASE IN GRAIN OUTPUT FROM 1973 LEVELS. SUCH A GROWTH WOULD, FOR THE MOMENT, END CHINA'S DEPENDENCE ON IMPORTED GRAIN AND POSSIBLY PROVIDE A GRAIN SURPLUS THAT WOULD PERMIT DIVERTING FARM LABOR TO INDUSTRIAL AND OTHER NON-FARM PURSUITS. HOWEVER, THIS PROJECTED RATE OF FERTILIZER CONSUMPTION--150KGS. NUTRIENTS PER CULTIVATED HECTARE--IS QUITE HIGH FOR A COUNTRY WITH SO MUCH OF ITS FARM LAND ON THE ARID MARGIN, AND IT IMPOSES A STAGGERING TASK OF IMPLEMENTING MAJOR TECHNICAL CHANGES IN AGRICULTURE AND OF BUILDING A TRANSPORT AND MARKETING INFRASTRUCTURE. CHINA MAY NOT MEET ITS FARM GOALS IN THE GIVEN TIME FRAME. WHEN IT DOES, IT MAY FIND ITSELF PRESSING ECONOMIC LIMITS TO FURTHER AGRICULTURAL GROWTH, WHICH IS TO SAY THE FARM SECTOR MAY REQUIRE HEAVY SUBSIDIES, A MUCH EASIER TASK FOR A RICH THAN A POOR COUNTRY.

A NEW URGENCY EVIDENT IN THE BIRTH CONTROL PROGRAM SUGGESTS CHINESE PLANNERS ARE CONCERNED OVER LIMITS TO FARM GROWTH. AN EARLIER TARGET ADOPTED IN 1963 PROPOSED TO REDUCE ANNUAL POPULATION GROWTH TO 2 PERCENT BY 1970, 1.5 PERCENT BY 1980, AND 1 PERCENT BY 2000. IN 1973,

PEKING APPEARS TO HAVE PROPOSED AN ACCELERATED PROGRAM TO REACH A 1 PERCENT GROWTH BY 1980, REQUIRING MAJOR SOCIAL PRESSURES AND CHANGES IN THE RURAL AREAS. REPORTS OF SERIOUS PROPOSALS TO REMOVE THIRD AND SUBSEQUENT CHILDREN FROM THE FAMILY TO BE RAISED BY THE STATE MAY ILLUSTRATE THE LENGTHS PEKING IS WILLING TO GO, OR AT LEAST THE POSTURE OF RUTHLESS DETERMINATION IT DESIRES TO PROJECT.

5. SUBSECTION C. PROVIDING FOR INDUSTRIAL GROWTH
(PARA. 4) SUBSTITUTE THE FOLLOWING: THE CURRENT STATE OF

CHINA'S FOREIGN TRADE REFLECTS OF THE LEADERS TO MAKE GOOD THE TIME LOST DURING THE CULTURAL REVOLUTION AND TO SPEED UP THE INDUSTRIALIZATION OF THE COUNTRY. IN 1963, PEKING ADOPTED A LONG-TERM PROGRAM TO 1980 WHICH SOUGHT, WITHIN AN AUTARKIC FRAMEWORK, TO EMPHASIZE FARM GROWTH AND TECHNICAL ADVANCE IN THE 1960'S, FOLLOWED IN THE 1970'S BY AN EXPANSION OF THE FUEL AND RAW MATERIAL BASE AND OF THE TRANSPORT AND MARKETING INFRASTRUCTURE. THE
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AIM WAS TO SECURE CONDITIONS FOR RAPID INDUSTRIALIZATION IN THE 1980'S. THIS PLAN HAS BEEN MODIFIED, ABANDONING AUTARKY IN FAVOR OF EXPANDED FOREIGN TRADE IN HOPES OF COMPENSATING FOR FAILURES TO ACHIEVE THE PREREQUISITE GROWTH IN FARM OUTPUT AND TECHNICAL CAPABILITIES. THE RECENT EXPANDED PURCHASES ABROAD COVERED NOT ONLY RAW MATERIALS AND SEMI-MANUFACTURES BUT ALSO A WIDE RANGE OF MACHINERY AND EQUIPMENT AND A LARGE NUMBER OF COMPLETE PLANTS. THE CAPITAL EQUIPMENT SHOWS, AS EXPECTED, A FOCUS ON MINING, PETROLEUM EXTRACTION, CONSTRUCTION, ELECTRIC POWER, PETROCHEMICALS, AND IRON AND STEEL, AS WELL AS AIR, SEA, ROAD, AND RAIL TRANSPORT. THE COMPLETE PLANTS TENDED TO BE LIMITED TO A FEW MANUFACTURING PROCESSES INVOLVING COMPLEX TECHNOLOGY AND HEAVY EQUIPMENT BEYOND CHINESE CAPABILITIES; THE BULK OF THE COMPLETE PLANTS CONSIST OF LARGE UREA PLANTS, PETROCHEMICAL COMPLEXES FOR PRODUCING ARTIFICIAL FIBERS, AND A MODERN IRON AND STEEL COMPLEX.

6. SUBSECTION D. PROBLEMS OF IMPLEMENTATION (PARA. 8)
SUBSTITUTE THE FOLLOWING: CHINA'S PROGRAM TO SECURE A RAPID VIABLE INDUSTRIALIZATION IN THE 1980'S REQUIRES CONSIDERABLE AUSTERITY AND SOCIAL CHANGE THROUGH THE 1970'S, WHICH MAY TEST THE COUNTRY'S POLITICAL UNITY AND WILL. CHINA'S AGING LEADERSHIP IS NOT LIKELY TO SURVIVE THE DECADE, WHILE BELOW THE TOP LEADERS, CHINA'S POLITICS IS RIVEN BY RIVALRIES AND FACTIONS. SOME EMPHASIZE STABILITY, MODERATION, AND BUREAUCRATIC INTEGRITY TO IMPLEMENT SMOOTHLY DEVELOPMENT PROGRAMS, WHILE OTHERS CONSIDER THAT RADICALIZATION AND POLITICAL FLUX ARE NEEDED TO SECURE POPULAR COMMITMENT TO SOCIAL CHANGE. THE ANTI-CONFUCIUS CAMPAIGN HAS SURFACED EVIDENCE OF

POLITICAL INFIGHTING AND POPULAR UNREST. ALTHOUGH THE EXPANSION OF FOREIGN TRADE IS ESSENTIAL TO CURRENT PLANS, SOME FACTIONS CHARGE ITS ADMINISTRATORS WITH CREATING A LONG-TERM DEPENDENCE ON FOREIGN COUNTRIES, FORCING DEFENDERS TO INSIST THAT IT IS A TACTICAL, TEMPORARY PROGRAM FOR THE 1970'S THAT WILL NOT COMPROMISE CHINA'S AIMS FOR AUTARKY AND INDEPENDENCE. EXPENDITURES ON ARMAMENTS HAVE DROPPED ABOUT 20 PERCENT IN 1972/73 FROM THE 1970/71 PEAK LEVEL, CHIEFLY REFLECTING REDUCED AIRCRAFT

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PRODUCTION. THIS DEVELOPMENT HAS RELEASED RESOURCES AND FACILITATED THE NEW SURGE IN INDUSTRIAL CONSTRUCTION, BUT ITS OCCURRANCE DURING A PERIOD OF MILITARY PURGES AND THE REMOVAL OF MILITARY LEADERS FROM IMPORTANT CIVILIAN

POLITICAL POSTS RAISES QUESTIONS AS TO THE RELATIONSHIP BETWEEN MAJOR RESOURCE ALLOCATIONS ON THE ONE HAND AND AN UNCERTAIN MILITARY/CIVILIAN LEADERSHIP BALANCE ON THE OTHER. ALTHOUGH THE ANTI-CONFUCIUS CAMPAIGN HAS BEEN WELL UNDER THE CONTROL OF THE AUTHORITIES, RECENT INDICATIONS ARE THAT IT HAS SIGNIFICANTLY SLOWED INDUSTRIAL GROWTH, APPARENTLY THROUGH GIVING VENT TO WORKER DISSATISFACTIONS AND DIVERTING THE ATTENTION AND RESOLUTION OF MIDDLE-LEVEL MANAGEMENT.

THE CHINESE NATIONAL INCOME IN 1973 IS ESTIMATED TO BE A LITTLE GREATER THAN THAT OF THE UNITED KINGDOM, BUT DEFINITELY BELOW THAT OF THE FEDERAL REPUBLIC OF GERMANY OR FRANCE; PER HEAD OF POPULATION IT WOULD NOT EXCEED 200 DOLLARS. THE STANDARD OF LIVING OF THE POPULATION, AND GENERALLY SPEAKING THE STATE OF THE ECONOMY, ARE IN THE LONG-TERM CLOSELY LINKED TO THE RESULTS OF THE EFFORTS MADE TO INCREASE AGRICULTURAL OUTPUT BY HELP FROM ABROAD AND BY INTENSIVE RESORT TO HUMAN CAPITAL.

7. THE STATISTICAL ANNEX SHOULD BE BROADENED WITH RESPECT TO POPULATION AND GRAIN OUTPUT IN VIEW OF THE CONCERN OVER THE LONG-TERM TRENDS. OUR FIGURES FOR INDUSTRIAL OUTPUT AND FOREIGN TRADE DIFFER SLIGHTLY WITH THOSE PRESENTED, AND TO A MAJOR EXTENT WITH THOSE PRESENTED FOR PETROLEUM OUTPUT IN 1970 AND 1972. THE LATTER REFLECT OLD ESTIMATES WHICH HAVE NOW BEEN ADJUSTED SUBSTANTIALLY UPWARDS ON THE BASIS OF NEW INFORMATION.

---	1957	1964	1967	1973
POP. (MILLIONS)	645	735	780	880
GRAIN OUTPUT				
(MILLION TONS)	185	210	230	250

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AVG. GROWTH (PERCNT) 1.8 PCT 3.1 PCT 1.4 PCT

GRAIN OUTPUT

KG/HEAD 287 286 295 284

--- 1970 1972 1973

ENERGY OUTPUT:

--COAL (MILLION TONS) 310 357 378

--ELECTRICITY(BILLION KWH) 72 93 101

--CRUDE OIL (MILLION TONS) 28.5 43 53

OTHER INDUSTRIAL OUTPUT:

--STEEL (MILLION TONS) 18 23 26

-- FERTILIZER (MILLION TONS) 14 19.8 24.8

FOREIGN TRADE (TOTAL TURNOVER 4.3 5.8 9.4
IN MILLION US\$)

WE SUGGEST GRAIN IMPORTS BE TREATED IN THE TEXT AND
DROPPED FROM THE ANNEX. IN VIEW OF FLUCTUATING IMPORTS,
NO SINGLE YEAR IS REPRESENTATIVE OF PAST AVERAGE. OUR
FIGURES DIFFER FROM THOSE IN THE ANNEX, THE TREND IN
RECENT YEARS BEING AS FOLLOWS: (MILLION TONS)

---	CALENDAR YEAR	GRAIN YEAR
--	1967 4.1	1966/7 5.1
---	1968 4.4	1967/8 4.3
---	1969 3.9	1968/9 3.3
---	1970 4.6	1969/70 4.5
---	1971 3.0	1970/1 3.9
---	1972 4.8	1971/2 3.0
---	1973 7.7	1972/3 6.2
---	EST 1974 9.0	EST 1973/4 8.0 KISSINGER

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